

JULEX CAPITAL

The problems with liquid alternatives

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- Definition
- Who's using them
- Are they a big deal
- Why do they exist
 - Investment managers
 - Advisors
 - Wholesalers
 - Intermediaries-The Platforms
- What are they
- Are there any exceptions

Definition

How does our industry define or categorize or label “liquid alternatives”

- **Motivation**

- Be able to invest alongside the Harvard, Yale, and Princeton endowments
- Make the same investments as the Getty's, Rockefeller's, and Kennedy's
- The democratization of investing . . . through technology, access, and economies-of-scale

- **Operational Specifics**

- Daily pricing . . . reported by the custodian
- Daily liquidity . . . or at worst quarterly
- No account minimum . . . or seriously low
- 1099 tax statement . . . only very rarely a K-1
- Attractive, compelling collateral
- Strong, heavy-duty wholesaler support

- **Structures**

- Mutual funds
 - Open end
 - Closed end
- Interval funds
- Private REITs
- BDCs
- Feeder funds
- Structured notes

Who's using them

100% retail

- This has always been . . . and will always be . . .
- 100% retail

- Why?

- Because institutional investors can **ALWAYS** get a better deal
 - **Better**
 - Pricing
 - Terms
 - Investments
 - Information
 - Access

Are they a big deal

Yep - This is the biggest product development cycle in our industry's entire history

Are liquid alts a big deal ?

- Yep . . . dollars have flowed . . . and keep flowing
- Maybe the single biggest product development cycle in our industry's entire history
- **What might be comparable**
 - Creation of the mutual fund
 - Creation of the ETF
 - Creation of retail investing recall that investing used to be restricted to institutions and the ultra-high net worth

Why do they exist

Investment managers

Investment managers are . . . seriously desperate

- Huge increase in supply
- Mutual fund companies losing
 - Business to ETFs
 - Margins to fee competition
- Institutional investment managers
 - Disappearance of defined benefit pension plans
 - Di minimis growth across foundations/endowments

Why do they exist

Advisors

- They said . . .
- *“Because they are uncorrelated”*
- *“Because they make money in up-markets . . . and in down-markets”*

- I am not competing on the basis of
 - Financial planning
 - Estate, tax, generational-transfer, gifting, risk-management, healthcare, gray-years management
 - The full range of life-long financial-life needs
- Instead . . .
- I am competing on the basis of . . . *“I’ll deliver a higher investment return . . . than the other advisor”*
- This forces me to find a better investment solution
- Therefore . . .
 - I demand/seek promising stories
 - With seeming validity
 - That the client can’t get on their own

Why do they exist

Wholesalers

- Awesome stories . . . narratives
- Ex-post cherry picked time periods
- Brilliant collateral
- Lots and lots of support
- Make it easy
- Deliver comfort and confidence . . . handholding

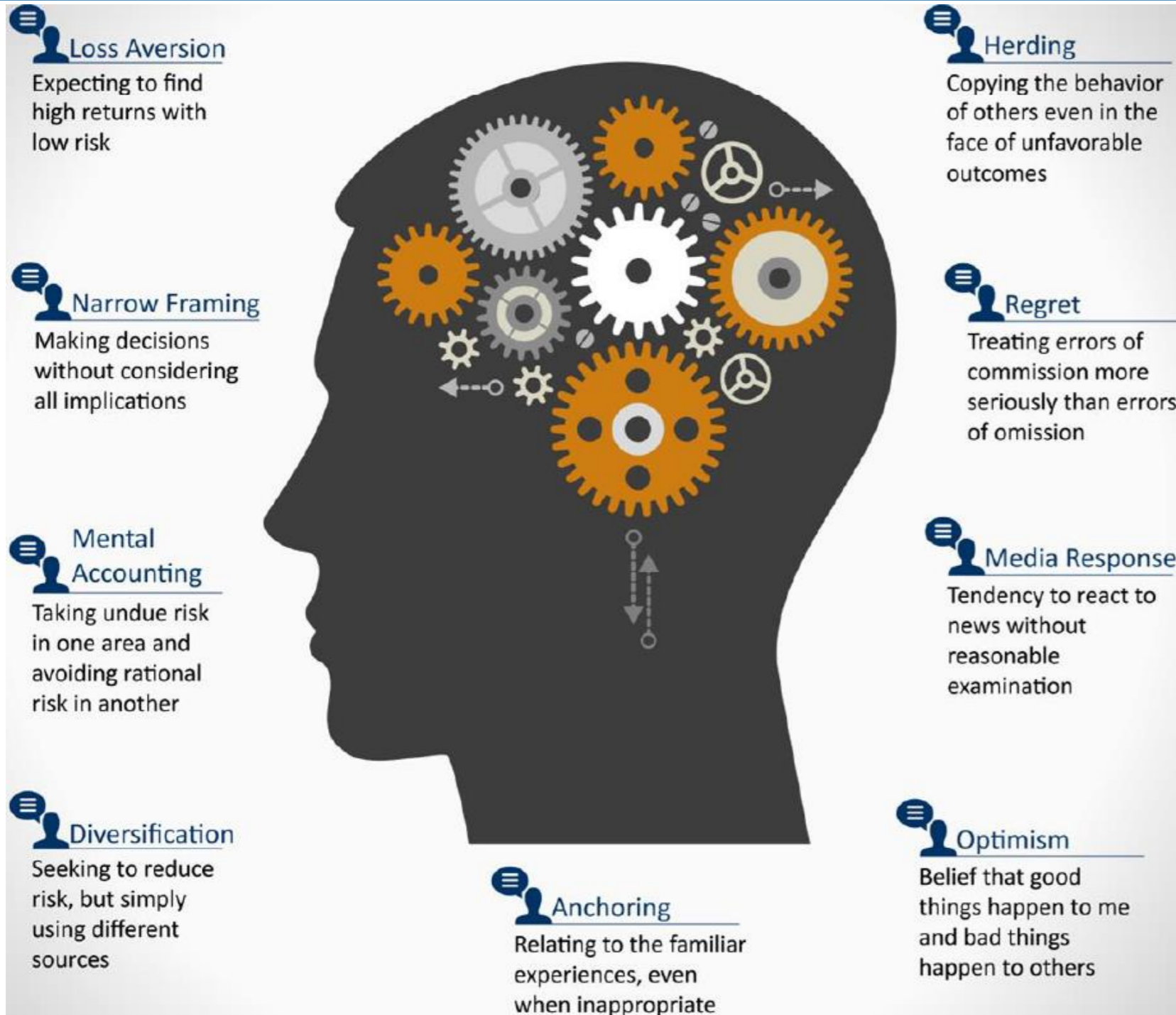
Trend chasing

Believe one can invest in the past

Recency

Recent success decides future decisions

Investing behavioral biases - Nine most common



Why do they exist

Intermediaries - The Platforms

- Creation of powerful new intermediaries
- Feeder funds
- Alts TAMPS
 - “Aims to Democratize Alternative Investments”
 - iCapital, Artivest, CAIS, iFunds, Conway, Harbor, Alto
- Repackagers
 - FS Investments
 - Invesco (Caryle)

Why do Facilitators exist ?

- Pick the investments
- Complete the paperwork
- Deliver lower account minimums
- Perform due diligence . . . so as to fend off
 - Regulators
 - Litigators
- While still allowing the adviser to feel in control

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- **And they perform each of these functions**
- **Do them well**
- **Provided at a competitive and reasonable price**
- **An attractive business model, one that will thrive**

But will the clients benefit ?

- Have clients benefited from the advent of TAMPS in the traditional long-only space
- **NO**
- So, why would you expect clients to benefit in the even more difficult alternatives space?

- **Why do liquid alts exist . . . the real answer is . . .**
 - They support higher profit margins for the manufactures
 - They support higher sales commissions for the distributors
 - Not or only partially marked-to-market
 - Offer awesome storytelling

Summary - What's wrong with this ?

- **Why do liquid alts exist . . . the real answer is . . .**
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- **It doesn't benefit the client . . . there is no . . .**
 - Higher return
 - Lower risk
 - Superior diversification

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What are they

The ugly truth

What are liquid alts

- Fancy story
- High fee structure
- Hidden fee structure
 - Structured notes
 - BDCs
 - Private REITs
- Misleading liquidity . . . they don't have the liquidity you thought
- Awesome collateral
- Heavy-duty wholesaler support

What are liquid alts

- A product being used by those who
- Never asked the hard questions
- And never insisted on the honest answers
- Liquid alts are all about . . . a lack of adequate due diligence
- I wish I could be kinder . . . I can't

Are there any exceptions

Yes . . . but

Yes . . . But they are seriously rare

- **Physical reinsurance**
 - Be very careful of the cost structure
- **Passively hedged equities**
 - Be extremely careful with the cost structure
- **Private REITs**
 - There are some good products out there
 - They take work finding . . . a lot of work
- **Private lending**
 - Interval funds
 - There are a very very small number of brilliant products . . . they are seriously rare
- **Complex exotic less traditional fixed-income**
 - Deep due diligence burden
 - Watch the costs
 - Avoid the storytelling . . . the carnival barkers

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NO . . .

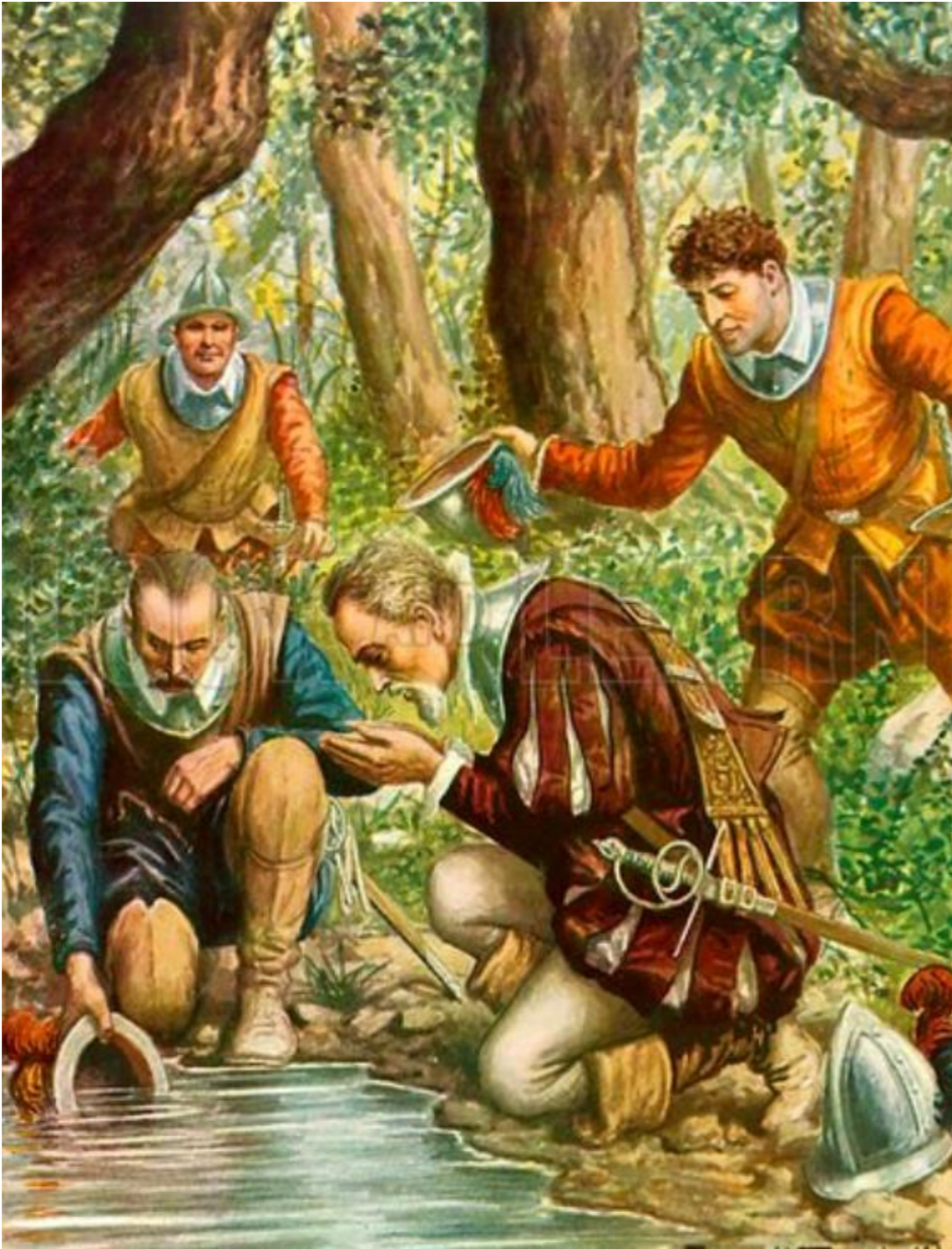
**Tactical asset allocation and/or
Options-overlay are not alternatives**

Summary

Recap on liquid alts

- This is the worst product development cycle in modern history
- Due to the sheer volume of
 - Mis-sold
 - Overpriced product
 - That won't work

Ponce de León searched for the fabled Fountain of Youth





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PERSPECTIVES

The Myth of the Absolute-Return Investor

M. Barton Waring and Laurence B. Siegel

In meetings with clients and colleagues in the past few years, we have noticed that many otherwise hardheaded and clear-eyed investors are excited about “absolute return” investing. The notion is spreading like wildfire. Many institutional investors have already added, or are planning to add, an absolute-return “asset class” to their policy mix. At a time when pension funds, foundations, and endowments are under

both sensible and true to the sense of the term eluded us. That experience further piqued our interest in the idea.

So, let us explore the term a bit. It is widely used, and because words are chosen to a purpose, one can find some of that purpose by observing the context in which a term is used.

One important bit of context is that the word pair “absolute return” has been used most by those

- Permanent, perpetual, durable risk factors that are non-diversifiable
- That are not captured (harvested) elsewhere
- These are NOT . . .

Stocks

Bonds

Commodities

Currencies

- We can't just recombine these . . . and magically create a new risk factor

- Exist
- Rare
- Temporary
- Transitory
- Self-extinguishing
- The simple act of harvesting the alpha opportunity serves to eliminate the opportunity

- If your objective is to catch fish . . .
- Fish in the right place
 - Large number of fish
 - Big fish
- Avoid competitors
 - Less to go around when faced with too many other fishermen
- Use better fishing equipment than your competitors
 - What's your edge . . . and is it sufficient
- Leave, move on . . . to another fishing pond
 - Before the fish are all depleted

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Value risk premium and the small cap risk premium

Friday

June 9th

11:00 a.m. EASTERN

All data and statistics were provided by Ycharts, Global Financial Data, Inc., and NDR, Inc. (unless otherwise indicated in the exhibit)

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